

Procurement Working Group

Meeting Notes

July 26, 2004

The meeting began with the approval of the July 19, 2004 meeting notes. With the following exception the meeting notes were adopted. In addition to the “Facts” for Scenario 3A the following will be added to the “Facts” for that Scenario:

- Allows for the incorporation of non-price or social policy goals into the portfolio design or selection criteria.
- Is flexible enough to accommodate various rate designs and retail products (portfolio costs do not translate directly into rates; costs must be allocated to classes).
- Provides for single point accountability and responsibility for supply planning and portfolio management functions with regulatory oversight of this activity.

Discussions were held at length regarding the Pros, Cons and Facts of Scenario 4. Following is the list showing those agreements.

SCENARIO 4 AFFILIATE PURCHASES

PROS

1. Utilizes legacy portfolio and risk management expertise of utility affiliates. **(Consensus Agreed)**
2. Is compatible with various rate designs. **(Consensus Agreed)**
3. May provide stable rates for applicable customers. **(Consensus Agreed)**
4. Allows for incorporation of RPS green power requirements. **(Consensus Agreed)**

CONS

1. Not a transparent process. **(Consensus Agreed)**
2. Not a competitive procurement approach. **(Consensus Agreed)**
3. Resulting price for end use customer not tied to market. **(Consensus Agreed)**

4. Inconsistent with FERC affiliate transaction rules (i.e., Edgar test). **(Consensus Agreed)**
5. Does not foster wholesale competition. **(Consensus Agreed)**
6. Does not facilitate participation by non-affiliated generator or suppliers of all kinds. **(Consensus Agreed)**
7. Provides little or no opportunity for stakeholders to review and comment on utilities' procurement plans. **(Consensus Agreed)**
8. Limits the regulatory oversight by the ICC. **(Consensus Agreed)**
9. May engender federal/state regulatory conflict given the different policy objectives and standards used by ICC and FERC. **(Consensus Agreed)**
10. May be susceptible to affiliate abuse that may be difficult for regulators to detect. **(Consensus Agreed)**
11. Could facilitate the capture of excess profits by the regulated entity on behalf of its unregulated GENCO affiliate. **(Consensus Agreed)**
12. If market metrics are lacking, would hamper efforts to evaluate the performance and cost-effectiveness of the supply portfolio. **(Consensus Agreed)**
13. Provides a potentially inadequate incentive to procure power efficiently given the lack of competition and limited regulatory review. **(Consensus Agreed)**
14. Does not provide non-affiliated suppliers with the opportunity to participate directly as the supplier to the utility. **(Consensus Agreed)**
15. Inclusion of regulatory risk into supplier's pricing, if supplier's offer is fixed and the regulatory proceedings required for approval require extensive amounts of time. **(Consensus Agreed)**
16. May reduce market liquidity if supplier uses its own generation to serve a large portion of the supply obligation. **(Consensus Agreed)**

FACTS

1. Default risk is reduced if the supplier has a strong credit rating. **(Consensus Agreed)**
2. To the extent this scenario provides for a priori approval of the rates based on the supplier's price, it provides greater certainty of cost recovery to incumbent utilities compared to traditional rate-making principles involving after-the-fact prudence reviews. **(Consensus Agreed)**

3. Could involve regulatory proceedings in order to approve supplier's price, associated generation rates, and sole source procurement approach.
(Consensus Agreed)

Scott Yaeger of Peabody Energy presented Scenario 3. Following completion of Scenario 3 Reliant Energy presented Scenario 11.

It was requested that Pros and Cons on Scenarios 3 and 11 be emailed to dvite @irma.org by the close on July 29, 2004.

With not further business to come before the group it was announced that the next meeting will be August 2, 2004 at Constellation New Energy from 1:00 p.m. until 4:00 p.m.

FUTURE MEETING DATES - All to be held at Constellation New Energy

August 2 – begin and complete discussion on the Pros and Cons of Scenarios 6 and 10.

August 5 – this meeting will be exclusively dedicated to the presentation of Scenarios 5, 7, 8, 9 and 12 and a special presentation by Constellation New Energy on “Generation Ownership Shares”.

August 13 – begin and complete discussions on the Pros and Cons of Scenarios 3, 5, 7 and 8.

August 16 – begin and complete discussions on the Pros and Cons of Scenarios 9, 11 and 12.